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How to Protect Your Business

SELF-INSURE

COMMERCIAL
INSURANCE

CAPTIVE INSURANCE

By Joseph W Tucciarone, CEO National Network of Accountants

The use of captive insurance companies is on the rise among middle-market businesses, and the reasons are clear. By analyzing data, we gain insights into why these businesses have decided to use captives as a risk management tool. The data tells a compelling story: sophisticated business owners are recognizing the benefits of captive insurance, including risk management, insurance savings, wealth transfer, and significant tax advantages. Warren Buffett, one of the world's greatest investors, once described the insurance business as a "license to print money."

Based on our experience, most business owners considering captives often begin by pondering these five key questions:

1. **Do I have risks that could significantly impact my business?**

Are there risks that could potentially destroy everything I have built? These risks could be the loss of a key customer or employee, high legal expenses, changing

government legislation, or even unfair competition.

2. **Can I create additional tax deferrals or a conversion strategy?**

Why do so many wealthy individuals pay less in taxes while my rate remains high? What strategies do they know that I don't?

3. **How do I protect the assets I have worked so hard to create?**

In a highly litigious society, safeguarding assets is critical. After all, McDonald's was sued over a cup of coffee—anything can happen. How can I protect what I've built?

4. **How do I pass my wealth on to my family?**

Estate planning is a daunting task, particularly with the burden of government taxes. Most businesses fail to survive through three generations. How can I enhance my estate planning to preserve my legacy?

5. **How do I reduce my reliance on banks?**

Access to capital at favorable rates can fuel business expansion without overburdening the company. Is there a way to create an inexpensive source of capital?

A **Captive Insurance Company** is an official insurance company that is owned by the business owner. Many business owners never considered entering the insurance industry until they reviewed the data on establishing their own insurance company. Our findings suggest that mid-market

business owners today understand the importance of financial control, objectivity, and the value of customized solutions which has led to enacting supportive legislation of captives in more than 36 states, the District of Columbia, and the U.S. Virgin Islands.

While some see captive insurance companies as a relatively new concept, their origins date back to the 1840s, when sea captains and textile mill owners in New London and Norwich, Connecticut formed their own captive consortiums. Captives are far from "new"; they have a rich history that has evolved significantly over time.

In the past three decades, the captive insurance industry has experienced exponential growth, as business owners have realized the advantages captives offer in risk management, insurance savings, wealth transfer, and tax planning. Today, nearly all major corporations utilize captives to benefit from these advantages.

Our mission is to assist mid-market business owners in managing the daunting challenges they face. With so many questions at hand, our research provides clear, data-driven answers.

Here are examples of well-known businesses in the local area that have established captive insurance companies:

- PC Richard & Sons, Inc.
- The New York Times Company
- Empire State Building
- Americana Manhasset

We at **the National Network of Accountants** believe that to make a positive impact, hindsight must be turned into foresight, flexibility must be

viewed as strength, and data must be harnessed as power.

As Warren Buffett said, "In the business world, the rearview mirror is always clearer than the windshield." Let us use our collective experience and data to look ahead with clarity and confidence.

If you're considering a captive in 2024, let's start the conversation this week. You can call us @ 516-398-1337 or reach out by email at Jtucciarone@nnaplan.com.



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